

ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

CHALLENGES OF SMALL AND MICRO ENTERPRISES (SMEs)
THE CASE OF KIRKOS SUB-CITY

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FEBRUARY, 2014

ADDIS ABABA, ETHIOPIA

**CHALLENGES OF SMALL AND MICRO ENTERPRISES (SMEs)
THE CASE OF KIRKOS SUB-CITY**

**A SENIOR RESEARCH SUBMITTED
TO THE DEPARTMENT OF ACCOUNTING
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FOR THE DEGREE OF BACHELOR OF ARTS IN
ACCOUNTING**

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ABBREVIATIONS

SMEs - Small and Micro Enterprises

SMUC - Sante Marry University College

TVET -

CSA - Central Statics Authority

HRM - Human Resource Management

NGOs - Non-Governmental Organizations

ABSTRACT

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

The importance of Small and Micro Enterprises for the socioeconomic development of nations is receiving great deal of attention at present. They are considered to be of greatest value in promoting economic development and creating employment opportunity. Establishing and running a business is not an easy task. It is full of risk. It requires efficient and effective management and adequate financial support. It also asks for continuous planning and evaluation of activities. Thus, the success of business enterprise depends on the entrepreneurial skill and managerial capacity of the people who own or run them' (*SMUC Small Business Management for TVET Program Module 1*, 2005: III).

Although national micro and small enterprises strategy was developed by the Ethiopian government in 1996/1997, the program started to receive due attention in 2004/2005. Still, the degree of recognition to the sector with regards to job creation and the alleviation of abject poverty among impoverished citizens is not sufficient.

Until 2004/2005 the national strategy was implemented by federal SMEs Development Agency organized only at national level. As a result, it was very difficult to make the strategy practical specially in delivering business development service for SME operators.

Thus by considering the original role of the sector and constraints faced by SMEs operators since 2004/2005, the government decided to establish SMEs coordinating body at regional level.

Accordingly, SMEs development agencies were set up in all regions, even sub branch offices at zone/district level. The system helped in creating job opportunity for both skilled and unskilled labor force. Moreover, it is continually contributing towards reducing the increasing trend of unemployment.

Currently, the government has amended SMEs strategy with the objective of alleviating poverty, reducing unemployment, and helping out the sector to play its pivotal role as a base to medium and large scale industry.

1.2. STATEMENT OF THE PROBLEM

SMEs in Ethiopia are steadily growing but much more important than their number is their current status, stage and pace of development. The rate of the development of SMEs in Ethiopia is very slow. This could be attributed to several factors in the business environment in which SMEs are operating today including considerable changes that have taken place in the world economic order during the past decade.

The survey by the central static Authority of Ethiopia (CSA) indicated that the increased role and contribution that SMEs sector could have provided to the national economy is rarely constrained by the various policy, structural and institutional related problems and bottlenecks. Lack of smooth supply of raw materials and working premises were reported the major bottleneck facing small scale manufacturing industries.

In Ethiopia the existing business associations are financially weak and most of them have a very limited capacity to actually support and strengthen their members. Most SMEs are not embraced by these business associations and thus excluding them from any form of support that could be obtained from them.

Despite a number of incentives and support extended by the government, SMEs are lacking professionalism and competitiveness in the market. Understanding the sector's capacity in creating job opportunities for the unemployed work force, a lot more needs to be done to professionalize and to make them more competent in the market.

This study is attempts to identify the challenges of SMEs in Kirkos Sub-City and give recommendations based on the findings.

1.3. RESEARCH QUESTIONS

In order to get the information needed for the main research problem, the following research questions are raised;

1. What restrain peoples from investing on SMEs?
2. What the problems related to marketing?
3. What the problems related to managerial and technical skills?
4. What the problems related to environmental and evaluation?

1.4. OBJECTIVES OF THE STUDY

1.4.1. General Objective

The overall objective of the study is to examine the challenges of SMEs in the case of Kirkos Sub-City.

1.4.2. Specific Objectives of the Study

1. To identify problems with regard to finance,
2. To identify problems with Marketing,
3. To identify problems with Management and HRM infrastructures of SMEs.
4. To forward possible suggestion and strategies to solve problems identified in the research.

1.5. SIGNIFICANCE OF THE STUDY

It is believed that performance is an important factor which determines the success of SMEs. Therefore, Evaluating performance SMEs enables them to identify their strength and weakness and hence to make improvement in weak areas and to sustain the existing strength. Furthermore, it can be used as a reference document for anyone who is interested in conducting their further study in the same area.

1.6. SCOPE OF THE STUDY

The focus of this research study is in carrying out a detailed examination of challenges of SMEs found in Kirkos Sub-City. In doing so, data is collected from the concerned SMEs in the sub-city. Any other businesses which are not identified as SMEs are not included in this study.

1.7. RESEARCH DESIGN AND METHODOLOGY

1.7.1. Research Design

The research is concerned with the challenge of SMEs in Kirkos Sub-City. The study is descriptive type. It describes the facts collected from the entrepreneur or respondents as they are. In addition, it tries to explain the reasons behind some collected facts.

1.7.2. Data Source and Collection

Both primary and secondary sources of data were used in order to achieve real and factual result.

This study has dealt mainly with the primary data that was collected with the help of questionnaires. Data was collected for the purpose of the study in proper ways so as to fulfil the research study. Standardized questionnaires were adopted which contains both closed ended and open ended questions and distributed to the relevant respondents under study. Questionnaires for the purpose of this study were prepared based on different literature reviews related to the objectives of the study.

1.7.3. Sample Size

Stratified random sample procedure was adopted as ultimate sampling unit for acquiring the primary data. This is done by dividing the population into homogenous groups, each group containing subjects with similar characteristics (i.e. Sport, Art and Recreation Group, Beauty Salon, Textile and Leather Products, Construction, Parking and Car Cleaning Service, Food processing, Wood Work, Metal Work, Mirror

Work, Cleaning Service, Electric and Pipe Work, Poultry, Coble Stone, Shower Service, and Advertisement)

TYPE	FREQUENCY	PERCENT
Service	36	31%
Manufacturing	76	67%
Others	3	2%
Total	115	100%

1.7.4. Method of Data Presentation and Analysis

In the process of presentation and analysis of the data, tables and graph are used in order to get a meaningful result.

1.8. LIMITATION OF THE STUDY

The study has faced some problems while doing this study specifically at the time of distribution and collection of questionnaires from the respondents. Furthermore, the study would be ideal to have a wide coverage (whole Addis Abeba City Administration) but due to time and resource constraints, the researchers could not.

1.9. ORGANIZATION OF THE STUDY

The study is organized in four chapters. The first chapter is presents the introduction which includes background of the study, statement of the problem, objectives of the study, significance of the study, scope of the study, limitation of the study and research methodology. The second chapters is contains review of related literatures. The third chapter is deal with data analysis and interpretation. Finally, the fourth chapter is contains summary, conclusion and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Definition of Small and Micro Enterprises

Specifying and size to define small and Micro business is necessarily arbitrary, because people adopt different standards for different purpose for example, legislators may exclude small firms from certain regulations and specify ten employees as the cut-off point. Moreover a business may be described as "small" when compared to larger firms, but "large" when compared to smaller ones for example most people would classify independently owned gasoline station, neighborhood restaurants, and locally owned retail stores as small businesses.

Similarly, most would agree that the major automobile manufacturers are big businesses and firms of intermediate size would be classified as large or small on the basis of individual viewpoints.

There are two approaches to define small and micro business. They are

- By some measure of size.
- Using an economic control definition.

In many ways they correspond to qualitative and quantitative approach respectively. (Hailay.G; 2003)

4.2 Size criteria

Even the criteria used to measure the size of business vary size returns to the sale of operations some criteria are applicable to all industrial areas, while others are relevant only to certain types business.

e.g. No. of employees, volume /value of sales turnover, asset size, insurance in force

Small and Micro business enterprise (SMEs) the world over comprise a wildly divergent spectrum of establishment, ranging from micro and rural enterprise to modern industrial units using sophisticated technologies. Because of their contribution in each and every national economy the importance emphasis on SMEs has been accentuated in the mind of policy makers, planners and the industry.

This is the consequence of the recognition that the suit from agrarian to industrial and to post industrial knowledge base societies is not through the large scale industrial houses but through individual and small initiatives by visionaries from the SMEs.

Bases of Defining SMEs in various countries

Country	Category of Industry	Criterion
Ethiopia	Micro Enterprise	Br, 20,000
	Small Enterprise	Br 20,000- 500,000
Australia	Manufacturing	Less than 100 employees
	Service	Less than 20 employees
Germany	SME	Less than 500 employees
France	SME	10-499 employees
Japan	Manufacturing	Less than 200 employees
Canada	Manufacturing	Less than 200 employees
USA	Very Small	Less than 20 employees
	Small	20-99 employees
	Medium	100-499 employees
China	SME	Depend on product group usually 100 employees investment ceiling us \$8 million
Indonesia	SME	Less than 100 employee
Malaysia	SME	Less than 175 full time workers investment us \$ 1 million

Thailand	Labor intensive	Less than 200 employees
	Capital intensive	Less than 100 employees

Small and medium enterprises (SMEs) cover a wider spectrum of industries and play an important role in both developed and developing economies.

Ethiopia is no exception and SMEs occupy a prominent position in the development of Ethiopia economy over the years the number of SMEs is growing from time to time.

The definition of SMEs varies from country to country. All over the world, number of employee or capital investment or both has been used as the basis for defining SMEs.(Hailay.G; 2003)

4.3 Economic/control criteria

Size does not always reflect the true nature of an enterprise in the addition qualitative characteristics may be used to differentiate small business from other business the economic/control definition covers:

- Market share
- Independence
- Personalize mgt

All three of these characteristics must be satisfied if the business is to rank as small and micro business.

Market share

The characteristics of a small firms share of the market is that it is not large enough to enable it to influence the price of national quantities of goods sold to any significant extent.

Independence

In dependence means that the owner has control of the business himself. It therefore rules out those small subsidiaries which, though in many ways

fairly autonomous, never the less have to refer major decision (e.g. on capital investment) to a higher level of authority. (Ibid)

Personalized Management

Personalized management is the most characteristic factor of all. It implies that the owner actively participates in all aspects of the management of the business and in all major decision of authority. One person is involved when anything material is concerned.

2.4 The characteristics of a small and Micro business person

To launch a new business successfully calls for a particular type of person. The business idea must also be right for the market and the timing must be spot on the world of business filers in fall of products that are a head of their time.

The business founder is frequently seen as someone who is always bursting with new ideas is highly enthusiastic, hyperactive and in stably curious. But the more you try to create a picture of the typical small business founder, the more elusive he or she becomes.

May such effort have been made to "divine" the characteristics of those people who are best suited to become small business proprietors. These efforts will no doubt continue, but it is on likely they will be any more successful than production techniques are today.

The following fairly broad characteristics are generally accepted as being "essential" but such evidence as there is to support this view is largely anecdotal. (Hailay.G; 2003)

2.5 Source of Finance for SMEs

Raising money to start up a business is never easy and expenses can vary widely from country to country. However, throughout most of the developed

world there are two fundamentally different types of money which is money borrowed most usually from a banks and which one day will have to be repaid whilst you are making use of borrowed money you will also have to pay interest on the loan. Second equity which is the money either put in by share holders including the proprietors, and money left in the business by way of retained profit. You don't have to give the share holders their money back, but they do expect the directors to increase the value of their share, and if you go public they will probably expect a stream of dividends too.

If you don't meet the share holder expectation then they won't be there when you need more money or if they are powerful enough they will take steps to change the board. (Hailay.G; 2003)

2.6 Developing your own business

There are advantages to developing your own business. Generally, it costs less up front to start a business than to buy one, and you can make use of your creative talents in developing something unique. You can address unexplored markets. You are free to choose your own location and develop your management style and policies, and you will not be buying the problem and flaws of an existing business.

Most people who start their own business are good at what they do. They have used their talents and creativity to develop something unique. They manufacture, provide, or sell good products or provide a good service. But a successful entrepreneur has to provide a good product or service and understand how a business works.

There are certain inherent risks in developing your own business. You have to start from structure, location and recordkeeping system. You must get license and permits. You develop your customer base, management and organization systems, and marketing plan at times, this can seem overwhelming. (Linda and Jerry; 2006)

2.7 The Role of Micro and Small Enterprise in the socio economic development of a nation

We are going to discuss the major roles that micro and small enterprises can play in bringing about socio-economic development in a nation. Developing countries are devoting attention to the development of small scale enterprise in a variety of ways. The following are some of the major vital roles that micro and small enterprises can play in the socio-economic development of a nation.

- i. Micro and small enterprises are considered to be of greatest value in building up a local production structure and in promoting economic growth.
- ii. Micro and small enterprise are also considered as a means of creating employment opportunity and achieving a fairer distribution of national resource, income, knowledge and power.
- iii. Small scale enterprises are also seen as a seed bed for the development of local entrepreneurship.
- iv. Small enterprises can help to promote rural industrialization.
- v. Small scale enterprises are termed or seen as form of enterprise in which more appropriate technology is applied. They require less capital and more labor. They have the capacity to generate a much higher degree of employment with less capital as compared to the large scale sector. Thus, they are less capital intensive and more employment oriented.
- vi. Small scale enterprises are also important in that they can serve as supplier of parts and accessories to bigger industries.
- vii. Small scale enterprise or industries can play a prominent role in promoting the export market.

2.8 Benefits of pursuing a career in business ownership

When seen from the individual point of view, operating small business has certain advantages. As a result, the desire for individuals to own and operate their own small business firms is growing. The following are the four benefits that individuals pursuing a career in business ownership can gain;

- a) Opportunity to gain control over your own destiny owning a business provides the entrepreneur the independence and the opportunity to achieve what is personally important.
- b) Opportunity to reach your full potential too often, people find their work boring and unchallenging the small business, therefore becomes an instrument for self-expression and self-actualization in your own business all of your skills and abilities will likely be challenged. The only barriers to success are those that your creativity and determination cannot overcome.
- c) Opportunity to reap unlimited profits although money is not the primary force driving most entrepreneurs, their ability to keep the money their businesses earn, certainly is a critical factor in their decision to launch companies.
- d) Opportunity to contribute to society and be recognized for your efforts we no longer can depend solely on our own skills to provide for all of our needs. Entrepreneurs provide the rest of us with the goods and services we need small business owners enjoy the recognition they receive from customers who they have served faithfully over the years.

2.9 The potential drawbacks of small business ownership

Anyone planning to enter the world of entrepreneurship should be aware of its potential drawbacks the point is that, without proper preparation; all individual may find the career path of business ownership frustrating.

The major potential drawbacks of owning a business include uncertainty of income, risk of losing your entire invested capital, long hours and hard work, lower quality of life until the business gets established, and complete responsibility. The nature of each of the drawbacks is discussed here under.

- i. Uncertainty of income opening and running a business provides no guarantee that entrepreneurs will earn enough money to survive in the early days of a business, the owner often has trouble meeting financial obligation and may have to live on savings.

- ii. Risk of losing your entire invested capital the small business failure rate is relatively high.
- iii. Long hours and hard work new business owners sometimes are amazed at the tremendous investment of time and energy required to get a business off the ground in the start-up phase in particular, the entrepreneur does everything alone-from manufacturing and selling to cleaning and raising money.
Studies for instance show that the majority of new business owners work more than 60 hours per week. In many start-ups, six or seven day work weeks with no paid vacations may be the norm when the businesses close, the revenue stops coming in, and the customer go elsewhere.
- iv. Lower quality of life until the business gets establish long hours and hard work needed to launch a company can take their toll on the reminder of the entrepreneur's life.

2.10 Success factor of Micro and Small Enterprise

Business owners/managers are required to take certain steps for the success of their firm and the major factors that contribute for the success of micro and small enterprise include the following;

- i. Determination of objectives Objectives/goals usually purpose and direction to the management process. Thus determination of objectives is a very essential and or important prerequisite for the success of a business firm what should be noted is however, the objectives set forth should be clearly stated to be understood by those who are going to implement the moreover, they should be classified in to long-range and short range objectives organizations without objectives are purposeless.
- ii. **Planning:** Planning which is considered as the essence of business, involves analysis of the potential problems and determining solution with reference to the pre established objectives planning is a non-ending function of the business owner/manager.

- iii. **Sound organization:** the existence of a sound organization is vital for the achievement of the firm objectives. The firm should be equipped with sufficient number of personnel with the required talents and skills. Thus, human resource, machine and materials must be properly combined and coordinated so that the intended objectives can be successfully accomplished.
- iv. There is a need for continuous improvement in the methods and techniques of production to meet the very changing character of demand as research is a systematic search for new knowledge, it has a significant contribution in helping the firm to find out new methods of production, improve the quality of products, and introduce new products.
- v. **Adequate finance:** the success of any business greatly depends on the availability of adequate finance for both short-term and long-term activities designed as a result; the business owners is required to correctly estimate the financial requirement of the firms and make the necessary arrangements to source the proposed financial resource.
- vi. **Proper location, layout and size:** business location layout and size have a great impact on the success of firms. Hence the business owner/manager must give due attention to the suitability and appropriateness of the business location, layout and size at the initial stage.
- vii. **Effective and efficient management:** a business firm needs to have effective and efficient management in order to successfully achieve its objectives. This means that a business owner should be endowed with the basic qualities that are essential. The qualities include;
- Ability to analyze the situation accurately.
 - Initiative and capacity to take prompt decisions.
 - Determination, courage and perseverance.
 - Intelligence and alertness.
 - Qualitative leadership.

- Business morality and integrity.
- Sound practical experience.

viii. **Marketing net work:** among the main purpose of firm is to satisfy the needs of its customers through provision of goods and/or services at specified prices. Thus, customer satisfaction is crucial for the prosperity and flourish of conducive distribution network.

ix. **Modernization:** in this modern world, ideas, methods, machinery and technology are changing or getting outdated very fast. If a business enterprise fails to keep pace with rapidly changing trends and technologies in the world, it usually become difficult for in to compete in the market and survive. It is therefore, necessary to modernize the machinery and techniques of business in order to get quick returns on investment.

2.11 Micro and Small Enterprise (MSEs) in Ethiopia

In successful developing countries, MSEs by virtue of their size, location, capital, investment and their capacity to generate greater employment have demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in providing goods and services that are of adequate quality with affordable price to large number of people particularly in rural areas. It also makes use of the skill and talents of the large number of people without requiring high level training large sum of capital or sophisticated technology.

2.12 The Nature of Micro and Small Enterprise in Ethiopia

With regard to diverse nature of activity of micro and small enterprise (MSEs) in Ethiopia, the majority of activities are concerned in three main broad sectors manufacturing, trade and service. The sample survey of the central statistical authority (CSA 2003) indicated that 43% of the informal sector operators are engaged in manufacturing 38% are in trade, hotels and restaurants, and 14% in community and personal service. The remaining 5% are engaged in construction 2% in agriculture, hunting, fishing, mining and quarrying.

The report on the survey of small scale manufacturing industries conducted by CSA indicated that, there are 31,863 small scale manufacturing industries all over the country, of which 19,996 /68%/ of them are located in urban areas. The small manufacturing industries are mainly engaged in the manufacturing apparel. In addition, the report on the survey of cotton/Handicraft manufacturing industries dated November 2002, indicated that there are about 974,676 establishment in Ethiopia of which 616,696 /63%/ are found in rural areas. The total number of person engaged in the SME sector at country level was 1,306,865.00 of which 1,230,846 /94%/ were employees. According to CSA, cottage/Handicraft manufacturing industries refer to those manufacturing establishment producing goods primarily for sale and which do not use power driven machines in performing their main manufacturing activities. In urban areas about 99% of the small scale operators run their business under individual ownership.

2.13 Problem faced by SMEs in Ethiopia

It is believed that the problems resulted to lack of adequate working premises, raw material shortages, insufficient working capital and ineffective marketing encountered by small industries resulted in the failure of the expansion of these businesses. Whereas the same set of problem, when experienced by the informal sector operators, have effect of preventing their expansion almost from the beginning of their operations. For instance, the results of the survey studies conducted on the "urban informal sector" indicate that most of the informal business operators (about 30%) expressed that their first major difficulty when starting their operation was lack of sufficient initial capital. The situation according to their responses becomes even more critical when they intend to expand their business.

As the findings of the study indicate limited market, health problems, lack of premises, lack of raw materials and limited capacity are also encountered. It is, therefore, necessary to assist MSEs to overcome the

mentioned problem through various support measure in addition to external support, MSEs themselves are expected to play their part to words improving their situation. (St, Mary's module; 2005)

Why do Small Firms Fail?

In the million of new business born each year in the developed world only half live as long as eighteen month and only one in five live as long as ten years. These dramatic figures are often quoted, but are nevertheless open to question in fact no one really has defined failure many proprietors shout down because they are bored, can make more money elsewhere, have sold out to the competition, or have retired. New start-up businesses fail for the following eleven business reason.

1. Lack of expertise: starting a business from scratch calls for remarkable versatility. The owner manger types the invoices with one finger in the evenings, does the books at the weekend, sells on Monday, makes the goods from Tuesday and delivers when he or she can. People with a history in large firms sometimes find it difficult to be came a jack of all trades.
- Incompetence: Lack of fitness to run the business physical, moral or intellectual.
- Lack of managerial experience: little, if any, experiences managing employee and other resources before going in to business.
- Unbalanced experience: not well rounded in marketing finance, purchasing and production.
- Inexperience in line: little, if any, experience in the product or service before going in to business.
- Neglect: too little attention to the business due to bad habits, poor health, or material difficulties.
- Fraud or disaster: fraud misleading name, else finical statements or irregular disposal assets. Disaster fire, food, burglary employee fraud or strike.

2. No product marketing strategy: until you have defined who will buy your product or service, and why you shouldn't begin in to offer it.
3. Over-optimism about market size it is a fundamental misconception to believe that people are simply sitting waiting to be sold to new business need to conduct research I the market they are aiming at, to see who the competitors are and make some reasoned estimate of what their anticipated sales will be.
4. Understanding the start up time: there's often a greater deal to do before the customers come a long premises to be found and fitted out, equipment and stock to be bought. Estimate how long you think it will take, double it and add on a bit more.
5. Lack of working capital: if you haven't calculated correctly you could easily run out of money. Scarce cash is tied up, and money is flowing in one direction only until customers start buying in reasonable numbers. Assess your capital requirements with a good safety margin at the outset a well-prepared cash flow fore cast will help you decide how much is needed and when.
6. Start-up cost too high: new business should be loan andmean don't spend too much on fixtures, fitting and equipment too soon people with a background in big business often start with extravagantly high standards.
7. Consequence of early growth: many people think their problem are over once customers start to roll in but they may have only justbegan a business changes its shape and size very rapidly in its early days as sales grow, ever increasing sum of cash are needed to fuel that growth and the danger is over trading.
8. Mistaking Cash for Profit: the cash that flow in to the business hasn't had any of the automatic deduction Knocked off it as has a pay check from all employer too often entrepreneurs yield to the temptation to use this cash to maintain their living standards, and when the one, for VAT- they can't pay them the inland revenue and custom and excise put more business in to liquidation them anyone else.

9. Wrong location: where you conduct your business and how much rent you pay is vital. Don't be tempted to take premises just because the rent is cheap no customers may pass that way. Equally, don't take on an expensive high street site if your business turnover is unlikely to cover the costs. Your initial market research should help you identify a suitable location.
10. Selecting and Managing people: by companies can afford to make the odd mistake when selecting state small business can't afford to get it wrong.
11. No management accounts new business people often see regular accounting as a bureaucratic non sense carried out for the benefit of the Inland Revenue alone for them the end of the first year is often the end of the business. (Colin; 1993)

2.14 Understanding business aims

Broadly speaking, profit is the difference between what a business has earned and what it has spent over a given period profit is extremely important for all business as no business can survive for very long if it is not profitable. (Helnemann Gnvq)

2.15 Ethics and social responsibility of business

Business ethics is the study of the principles and values which guide us in marketing responsible choice in relation to the possibilities, set out by economies and business. In simple expression, business ethics is about honesty, trust, respects and fairness in all business dealing. (BantleWorkle)

2.16 The influence of government on business

To use a botanical analogy, government and business are two genera of social and economic system of a country each of these genera contains species, such as federal, state, and local political bodies in the case of government, and corporation, partnership in the case of business. (Martin c.Sohnitzer)

CHAPTER THREE

3. Data analysis Interpretation and Findings

The objective of the study is to investigate the critical factors that affecting the performance and development of small and Medium Enterprises (SMEs) in Kirkos sub-city and analyze the relationship between these factors and firm specific demographical variables. Data were collected from SMEs found in Kirkos sub-city using questionnaire. One hundred fifteen questionnaires were distributed to respondents during December 2013 and analyzed using descriptive statistics method.

First, demographic characteristics of the respondents were tabulated and presented to show distribution of the sample firm in different demographic variables. Second, opportunities and future plans of the respondents towards their activity were also tabulated. Third, the extent of problem of SMEs rated by respondents were measured and tabulated. Furthermore, the relationship between demographic variables like sector and problems were measured using cross tabulation. Finally, a summary of the findings of the study were presented.

3.1. Demographic characteristics of the sample respondents

The first part of the questionnaires was designed to gather information about firm characteristics. Accordingly one hundred fifteen questionnaires were distributed for a hundred fifteen sample SMEs in Kirkos Sub-city. Although 115 questionnaires were distributed as stated in the original research proposal; only 98.26% were completed and returned during the data collection.

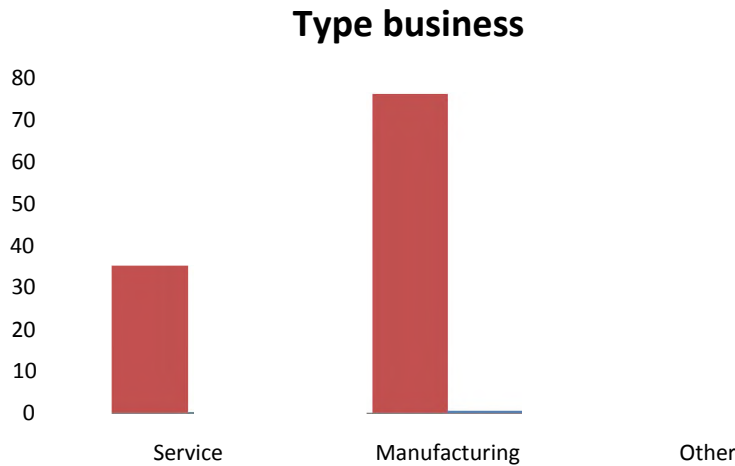
Table 1 Questioners

Distributed	Collected	Invalid (no valid information)	Valid (no relevant info)
115	113	1	1
percentage	98.26%	0.87%	0.87%

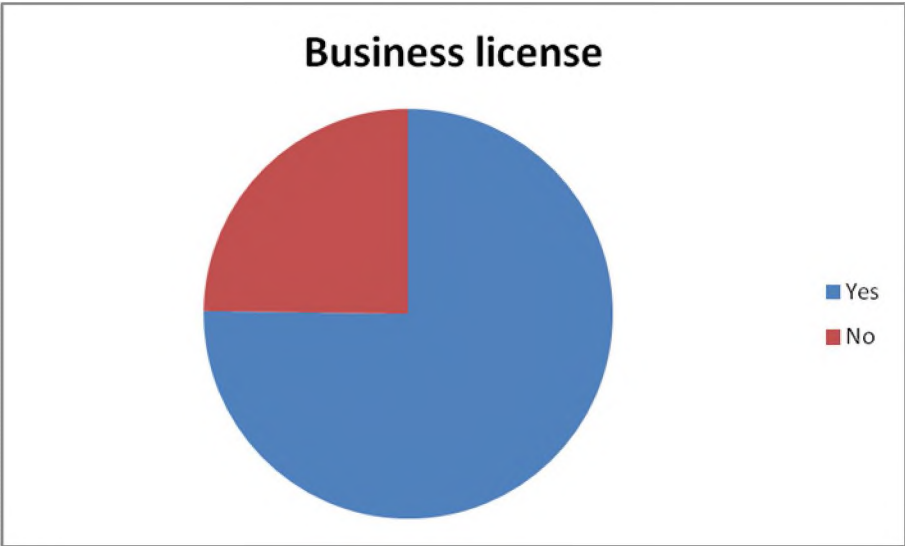
Source, questionnaire

As it can be seen from the table out of the questionnaires distributed 98% was completed and returned by the respondents while 2% of the questionnaire was not returned by the time we compile the data.

Graph 1. Type of business



As illustrated in the above table 31% of the respondent are engaged in service industry,67% in manufacturing and 2% from other type of business.from this we can understand that manufacturer has a largers SMEs in the sub city.



The above table shows that 75%of the respondents they have business license the rest of 25% they don't have business license.

Table 4 Number of employee based on sex

sex	frequency	percent
Male	59	52%
Female	54	48%
Total	113	1 00%

Source, questionnaire

The above table show that 52% of respondent there employees are male and 48% of the respondent there employs female this show that the male employee more than the female one.

Tables 5 are your employee qualified/trained in the area

	frequency	percent
Yes	58	51%
No	55	49%
total	113	100%

Source, questionnaire

The above table show that 51% of the respondent they have qualified employee and the rest of 49% respondent they don't have qualified employee.

3.2 Employment and legal forms of the organization

In Ethiopia, according to central statistics authority (CSA) definition SMEs are business organizations who have hired 10 or fewer employees. However, in the sample study it was found that four Firms having more than 10 employees. Apart from that all the firms in the sample study hired employees ranging from one to ten. In addition, CSA defines small and micro enterprises in terms of their registered paid up capital. According to the definition the SMEs paid up capital should be not less than Birr 20,000.00 but not more than Birr 500,000.00. Nevertheless, in this sample study it was very difficult to get information about the paid up capital of the firms. This is because the respondents were not willing to reveal their paid up capital information by fearing it may have some implication on their business.

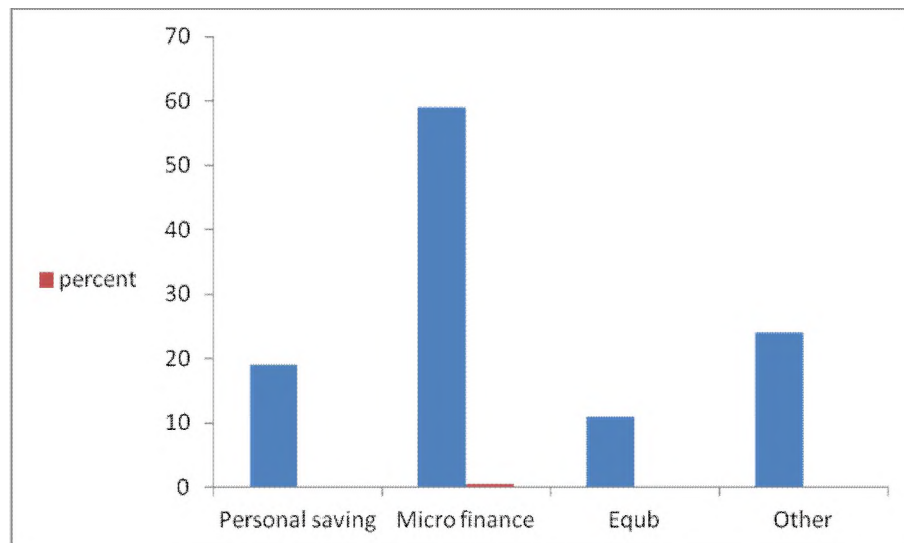
3.3. Sources of finance

For Small firms the biggest challenge is source of finance. Since most small firms are established people who have small or no starting capital.(Haily Gebretilsae) In relation to that the main source of capital for SMEs in Ethiopia are personal saving, micro finance institutions & Equb. The financing could be short term or long term financing. However, small firms have problems in distinguishing between long and short term financing needs. This often creates a problem in using the finance for appropriate activities.

To have a better understanding about the sources of the startup capital of SMEs, respondents in the sample study were asked to identify their sources of capital at the establishment of the business.

Source of startup capital

Graph 2. Startup capital



Source, questionnaire

As illustrated in the above table 17% of the respondents got their startup capital from their personal saving, 52% of the respondents used micro finance institution as a source of their startup capital, 10% from Equb(a sort of traditional saving & financing mechanism) and 21% got their initial

capital from other sources by selling their Assets or gift from relatives. This shows that even though, personal saving & Equb play an important role as a source of capital for SMEs, the biggest source of finance for SMEs coming from Micro finance institution loan financing.

3.4 Technical support and training

To be successful in any business area having technical and skill training in that particular business area is very important. In order to build the capacity of the SMEs, Government and Non -Government Organizations (NGO) provide technical support and training for individuals who are engaged in SMEs. In connection to that, the respondents were asked to indicate the assistance received from Government or NGOs in their business endeavor.

	Government	Non government organization
Technical assistance	65.1%	23%
training	61.4%	28.3%
Support your effort in the business	67.6%	30%

Source, questionnaire

The result show that 61.4 percent of the respondents said they have got training from government about their business while, 28.3 percent of respondents got training from NGO's. For the question did you get business related technical assistance from government or NGO's? 65.1percent respondents said they have received technical assistance from Government while the rest 23 percent got technical assistance from NGO'S. From the respondents 67.6 percent said their effort have been supported by government and 30 percent of the respondent SME's effort have been supported by NGO's. This shows that government and NGO's are actively supporting the SME's activities in all aspect of their business endeavor.

3.5 Critical problems/factor analysis

In any business area there are challenges faced by business organizations. The challenges are complex in nature and volume. Since SMEs operate in the environment where all business interaction takes place, they face problems in their business activities. In relation to this, one of the research question raised was what are the challenges of SMEs? In this regard, issues about challenges of SMEs have been raised, in order to assess the respondents consent on the issues.

The respondents were asked to rate 16 issues divided by four broad categories (i.e. Environmental, Managerial, control and evaluation and marketing factors) that have impact on the performance of SMEs. The respondents rated the issues using a scale ranging from Agree to "I don't know".

To manage the questionnaire the factors have been categorized in four main challenges based of the similarity of factors. Each main challenge has 4 list of problem/factors as shown in the questionnaire. An environmental factor consists of socio economic issues and techno regulatory issues. Managerial factor consist factors related to managerial decision and organizational systems. HRM (Human Resource Management) development issues and managerial action. Marketing factors consists of customer relationship and marketing action. Control and evaluation consists of responsibility, risk, and competitiveness issues.

3.5.1. Environmental factors

Socio economic issues include social, cultural economical technological and demographic changes in the external environment that affect the performance of SMEs. Economic issues including impact of inflation, recession, changes in interest and exchange rates, market size, spending power of customer, availability of business premises in the community, intensity of competitions in the market and the like are challenges facing SMEs as a result of changes in social, cultural, economical, demographic

changes and political legal environment.(Phililip koteler and Gary armestroing)

Table 7. Environmental factor

Environmental Factor	Strongly Agree	Agree	Disagree	Strongly Disagree	I don't know	Total
Intensity of competition	9(8%)	56(50%)	23(20%)	18(16%)	7(6%)	100%
Climate conditions	8(7%)	45(40%)	34(30%)	20(18%)	6(5%)	100%
Bureaucracy in company registration and licensing	15(13%)	36(32%)	34(30%)	23(20%)	5(5%)	100%
The impact of national culture; values, norms	8(7%)	34(30%)	39(35%)	23(20%)	9(8%)	100%

Source; Questionnaire

Based on the result the highest percentage of respondents (50% agree and 8% strongly agree) believe there is intense competition among Firms, while 6% don't have any idea about the issue. The rest disagree there is intense competition. This shows that there is indeed intense competition between Firms. Among the respondents 45% agree that climate change is a challenge for SMEs while 5% of respondents don't have any idea about the issue. On the other hand most respondents disagrees that bureaucracy, culture and societal values are a challenge for SMEs. Although some respondents disagree that some bureaucracy and culture are not challenges.

3.5.2. Managerial and HRM factors

Many researchers and practitioners claim that the major cause of small business failure is "poor management" whether the cause are labeled as financing, competition, marketing, inventory they can be sagely avoided if

good management was in place although it has become difficult to explain what constitutes "poor management", small business owners /manager need to develop basic managerial skills and managerial knowledge.(VSP Rao and PS Naryana) If they are to succeed, managers need to have adequate skills in the area of planning, organizing, directing and controlling organizational resources.

Table 8. Managerial factor

Managerial Factors	Strongly Agree	Agree	Disagree	Strongly Disagree	I don't know	Total
Lack of clear division of duties and responsibility.	8(7%)	50(44%)	29(26%)	20(18%)	6(5%)	100
Lack of well trained and experienced employees in the market	11(10%)	43(38%)	30(27%)	23(20%)	6(5%)	100
Lack of low cost and accessible training facilities	17(15%)	43(38%)	34(30%)	17(15%)	2(2%)	100
Lack of experience in owning/managing a business	11 (10%)	43(38%)	32(28%)	23(20%)	4(4%)	100

Source; Questionnaire

As illustrated on the above table most of the respondents believe that there is lack of clear division between duties and activities. Similarly, 53% of respondents agree that there are no low cost accessible training facilities in the market. Likewise, the majority of respondents agree that there is lack of trained and experienced employees in the market. . On the other hand, respondents equally agree and disagree on the idea that managerial experience is a challenge for SMEs. In general, the results show that managing and HRM factors are the challenges for SMEs.

3.5.3. Control and Evaluation

Small businesses are characterized by lack of control and evaluation skill. Lack of raw material and inventory control may have serious impact on production cost and selling price (Haily Gebretinsae). If the price is high due to production cost SMEs cannot be competent enough. Today quality control has become the basis of global competition. Competitiveness and survival are possible if only if SMEs can provide quality product/service and achieve customers' satisfaction.

Table 9. Control and Evaluation

Control and evaluation	Strongly Agree	Agree	Disagree	Strongly Disagree	I don't know	Total
Lack of delegation responsibility and accountability	17(15%)	34(30%)	31(27%)	20(18%)	11(1%)	100
Fear of failure, bankruptcy and risk taking	9(8%)	40(35%)	28(25%)	26(23%)	10(9%)	100
Lack of quality control systems	20(18%)	34(30%)	34(30%)	17(15%)	8(7%)	100
Inability to compete with large companies	31(27%)	31(27%)	28(25%)	22(20%)	1(1%)	100

Source; Questionnaire

Based on the result shown on the above table while 45% of the respondents agree that delegation, responsibility and accountability is a problem in SMEs equally the other 45% of the respondents disagree on the idea. Additionally, the majority of the respondents disagree that fear of failure, bankruptcy and risk taking are not challenges for SMEs. On the other hand, most respondents agree that lack of quality control systems are challenges for SMEs. Similarly, 54% agree that inability to compete with big companies is a major challenge for SMEs. Overall, the result shows control and evaluation factors are real challenges for SMEs in their business activities

3.5.4. Marketing factor

Marketing problems are the major problems of all SMEs, most SMEs have a very limited knowledge of the marketing concept.

Table 10 Marketing Factors

Marketing Factors	Strongly Agree	Agree	Disagree	Strongly Disagree	I don't know	Total
Lack of skill to set clear and competitive pricing policy	8(7%)	45(40%)	34(30%)	17(15%)	9(8%)	100
Lack of demand forecasting	17(15%)	43(38%)	23(20%)	20(18)	10(9%)	100
Poor customer relationship and handling	15(13%)	45(40%)	28(25%)	23(20%)	2(2%)	100
Lack of knowledge of market	20(18%)	40(35%)	34(30%)	19(17%)		100

Source; Questionnaire

From the result shown on the above table majority of the respondents agree that there is lack of skill in setting clear competitive pricing policy. Besides, 53% of the respondents agree that lack of demand forecasting is a challenge for SMEs. However, most respondents disagree that poor customer relationship and handling is a challenge in SMEs. On the other hand, most respondents agree that lack of market information knowledge is a challenge for SMEs. Generally, as a market is a place where goods & services are exchanged problems arising for lack of market information is a big challenge for any business. As it can be seen from the result one of the biggest challenges for SMEs is lack of knowledge of the market.

CHAPTER FOUR

CONCLUSION AND RECOMMENDATION

4.1. Conclusion

This paper presents the main findings on challenges of Small and Medium Enterprises in Addis Ababa a case of Kirkos Sub City. This study has dealt totally with the primary data that was collected with the help of questionnaires and were prepared based on different literature reviews related to the objectives of the study.

Financing is frequently becoming a major obstacle to overcome the way to setting up and staying in business. The SMEs in study have found that lack of sustainable and well organized financing system is the main problem. As shown in the study, the main source of finance comes from micro finance institutions which indicate that other financing mechanisms are least contributor.

The Findings from this study revealed that the environmental, managerial, control and evaluations and marketing factors are the main challenges of Small and Medium Enterprises and have an effect on their development. The changes in environment pose a challenge to the SMEs, which limits their abilities to maintain their position against high competitions with the larger firms.

There is lack of managerial and technical skills and this is mainly due to inadequate training given to them and financial problem that can help in providing training. The study also found that the marketing factor is another challenging factor which affects SMEs in attracting, retaining, and promoting their products or service using various marketing tools.

The Control and evaluation is also another problem identified in this study such as problem related with lack of effective quality control system and inability to be competitive with large firms. Therefore, this will affect the competitiveness and survival of small firms.

4.2. Recommendation

The design and implementation of small business assistance programs should be based on the identification and prioritization of critical factories. All problems to have equal degree of competitions, magnitude or impact on small business performance. A proactive entrepreneurial development programs requires long term view of current problems.

- > The study of small business problems must target on finding long lasting and sustainable solution. And hence detail research on each section should be under taken to identify the major problems not only in kirkose sub city but also in other sub city.
- > Most of the problem can be solved by designing effective and efficient policy and by incorporating in school curriculum. In this case the new educational policy is good practices but the training is limited only to the TVET students. Therefore, it would be good if others are incorporated to the programs.
- > Finally the government should focus on building competitive potential of indigenous firms through not only material and financial assistance but also through training, awareness creation program and entrepreneurial orientation. The target should not be increasing the number of SMES but to achieve challenges entrepreneurial attitude of the people at large.
- > In general, small firms should put in place, strategies to enhance knowledge, skills, and expertise. Therefore, adequate training and technical support which are essential tools for developing employees and the organizations should be given in a very effective way. This will have a great contribution for a better performance and create encouraged individual with the highest commitment to the organizational achievement.

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DEPARTMENT OF ACCOUNTING
QUESTION TO BE ANSWERED

Questioner to be filled by SMEs owners or employees in Addis

Ababa, Kirkos Sub city

This interview is prepared for the research work in partial fulfillment of B.A Degree in Accounting. The objective of the study is to collect information about the challenges and opportunities those SMEs at Addis Ababa face. We guarantee you that all data will be kept confidential and used for academic purpose only and it will have no harm on you as well as the organization you are working with.

We, therefore, request you to respond to each of the questions genuinely and honestly.

Thank you in advance.

Part one: General information

1. Type of the business/sector

Type	Frequency	%
Service giving		
Manufacture		
Others		

Part Two: Basic Business Information

1. Do you have business licenses?

☐ Yes

☐ No

2. How many employees do you have?

Sex	Frequency	%
Male		
Female		
Total		

3. Are your employees qualified/trained in the area?

☐ Yes

☐ No

4. What were the sources of your start-up capital?

Q Personal saving

“Equib”

II Micro finance

II. Others (please specify)

Part three: questions about training& technical assistance

1. Have you taken any training through government or NGO's? please explain

2. Did you get any business related technical assistance from Government or NGO's?
please explain.

3. Does the Government support your effort in the business? If your answer is yes please
explain how the support was given and what support you have received.

Please indicate the degree to which these factors are affecting the performance of your business. If the stated problem is high and repetitive put “**V**” mark on strongly Agree, and if you only agree, put “**V**” mark on Agree. If you Disagree, Strongly disagree on the listed problems put “**V**” mark on either strongly disagree and disagree box and if you don’t have information about the problem or if you don’t know the problem put “**V**” mark on I do not know.

S.No	1. Environmental Factor	Strongly Agree	Agree	Disagree	Strongly Disagree	I don’t know
1	Intensity of competition					
2	Climate conditions					
3	Bureaucracy in company registration and licensing					
4	The impact of national culture; values, norms					

S.No	2. Managerial Factors	Strongly Agree	Agree	Disagree	Strongly Disagree	I don’t know
1	Lack of clear division of activities and duties					
2	Lack of well trained and experienced employees in the market					
3	Lack of low cost and accessible training facilities					
4	Lack of experience in owning/managerial a business					

S.No	3. Control and evaluation	Strongly Agree	Agree	Disagree	Strongly Disagree	I don't know
1	Lack of delegation responsibility and accountability					
2	Fear of failure, bankruptcy and risk taking					
3	Lack of quality control systems					
4	Inability to compete with large companies					

S.No	4. Marketing Factors	Strongly Agree	Agree	Disagree	Strongly Disagree	I don't know
1	Lack of skill to set clear and competitive pricing policy					
2	Lack of demand forecasting					
3	Poor customer relationship and handling					
4	Lack of knowledge of market					



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